

Message Text

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ACTION EB-11

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS.

REF: STATE 53993

1. THE FOLLOWING TEXTUAL STATEMENTS AND STATISTICS
ARE IN REPLY TO REFTEL REQUEST FOR INVESTMENT
INFORMATION.

2. TEXTUAL STATEMENT ON INVESTMENT CLIMATE:

"ARGENTINA

"THE PRESENT GOVERNMENT HAS ADOPTED A MUCH MORE
RESTRICTIVE ATTITUDE TOWARD FOREIGN INVESTMENT IN
ARGENTINA THAN PREVIOUS ADMINISTRATIONS. THIS IS
REFLECTED IN A SERIES OF LAWS AND REGULATIONS,
INCLUDING A NEW FOREIGN INVESTMENT LAW, APASSED SINCE
IT TOOK OFFICE IN MAY 1973. IT IS STILL TOO EARLY
TO ASSESS THE FULL EFFECT OF THESE LAWS, WHICH WILL
DEPEND IN LARGE PART ON HOW THEY ARE APPLIED, BUT
THEY CLEARLY PROVIDE FOR A MUCH GREATER DEGREE OF
GOVERNMENT PARTICIPATION AND CONTROL OVER EXISTING AND
FUTURE INVESTMENTS. GOVERNMENT OFFICIALS MAINTAIN THE
NEW LAWS WILL ACTUALLY ENCOURAGE FOREIGN INVESTORS
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BY REMOVING PREVIOUS UNCERTAINTIES AND ESTABLISHING A

SET OF SPECIFIC RULES GOVERNING THEIR STATUS IN ARGENTINA. THERE IS STILL NO EVIDENCE OF THIS, HOWEVER, AND THERE IS LITTLE NEW PRIVATE DIRECT INVESTMENT FOR NEW PROJECTS CURRENTLY BEING MADE IN ARGENTINA.

"THE 1973 FOREIGN INVESTMENT LAW IS SIMILAR IN MANY RESPECTS TO THE ANDEAN GROUP'S FOREIGN INVESTMENT CODE. IT APPLIES TO ALL DIRECT FOREIGN INVESTMENTS, BUT PRINCIPALLY AFFECTS COMPANIES WITH 20 PER CENT OR MORE OF FOREIGN CAPITAL. SUCH COMPANIES ARE LARGELY PROHIBITED FROM OPERATING IN CERTAIN SECTORS, INCLUDING NATIONAL DEFENSE, PUBLIC SERVICES, INSURANCE, BANKING, THE MASS MEDIA, AGRICULTURE, FORESTRY, AND FISHING. IN THOSE CASES WHERE FOREIGN INVESTORS ARE PERMITTED TO HOLD MORE THAN 20 PER CENT OF A GIVEN FIRM, THEY MUST NEGOTIATE A FORMAL INVESTMENT CONTRACT WITH THE GOVERNMENT. COMPANIES WITH OVER 50 PER CENT OF FOREIGN CAPITAL REQUIRE CONGRESSIONAL APPROVAL. THE LAW ALSO LIMITS PROFIT REMITTANCES, CAPITAL REPATRIATION, AND ACCESS TO LOCAL CREDIT. PROFIT REMITTANCES FROM EXISTING FOREIGN INVESTMENTS WILL BEAR A SPECIAL TRANSFER TO TAX OF UP TO 40 PER CENT UNLESS THESE INVESTMENTS ARE PLACED, THROUGH A FORMAL CONTRACT, UNDER THE PROVISIONS OF THE NEW LAW. SUCH CONTRACTS WILL BE VALID FOR FIVE YEARS, AFTER WHICH THE GOVERNMENT MAY EITHER RENEW THEM FOR A SIMILAR PERIOD OR REQUIRE THE FOREIGN INVESTORS TO REDUCE THEIR PARTICIPATION IN FAVOR OF ARGENTINE INVESTORS. THE NEW ADMINISTRATION HAS ALSO ACTED TO RENATIONALIZE SEVERAL LOCAL BANKS ACQUIRED BY FOREIGN INVESTMENTS SINCE 1966.

"THE ANTI-INFLATION POLICY IN EFFECT SINCE MAY 1973 ADDS TO PRESENT INVESTMENT UNCERTAINTIES. PRICE AND WAGE CONTROLS HAVE SHARPLY REDUCED OR ELIMINATED PROFITS IN MANY SECTORS, INCLUDING THOSE WITH A HIGH PROPORTION OF FOREIGN CAPITAL. CENTRAL BANK REGULATIONS LIMIT THE AMOUNT OF DOMESTIC CREDIT WHICH CAN BE MADE AVAILABLE TO FOREIGN FIRMS. SINCE 1971, EXCHANGE CONVERTIBILITY FOR REMITTANCES OF EARNINGS AND CAPITAL HAS BEEN IN THE FORM OF DOLLAR DENOMINATED BONDS ISSUED BY THE CENTRAL BANK AT IRREGULAR INTERVALS. OPIC HAS

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INSURED OVER \$300 MILLION IN MAXIMUM LIABILITY IN ARGENTINA. NO NEW CONTRACTS FOR SUCH COVERAGE HAVE BEEN SIGNED SINCE 1970."

"OFFICIAL STATISTICS ARE NOT AVAILABLE, BUT THE MOST RECENT PRIVATE ESTIMATE PLACES TOTAL FOREIGN INVESTMENT IN 1969 AT \$2.7 BILLION."

3. RECENT DEVELOPMENTS: "ARGENTINA'S PRESENT GOVERNMENT HAS ADOPTED A MORE RESTRICTIVE ATTITUDE TOWARD FOREIGN INVESTMENT, BUT THE FULL EFFECT OF THE RECENTLY ENACTED SERIES OF LAWS AND REGULATIONS IS STILL UNCLEAR."

4. INVESTMENT STATISTICS:

A. US DIRECT INVESTMENT--INFORMATION AVAILABLE IN SURVEY OF CURRENT BUSINESS.

B. DIRECT INVESTMENT BY ALL COUNTRIES (MILLIONS OF DOLLARS).

TOTAL, INCLUDING US (1969)-----2,707(1)

OTHER COUNTRIES

ITALY (1967)-----200(2)

GREAT BRITAIN (1968)-----162(3)

GERMANY (1971)-----141(4)

(1) COMPUTATION MADE BY FUNDACION DE INVESTIGACIONES ECONOMICAS LATINOAMERICANA (FIEL).

(2) OECD--DAC, POSSIBLY UNDERSTATED.

(3) UK BOARD OF TRADE JOURNAL.

(4) GERMAN EMBASSY: DM 492.2 MILLION, CONVERTED
AT DM 3.5 EQUALS US \$1.00.

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C. DIRECT INVESTMENT IN THE US BY FOREIGNERS--
INFORMATION NOT AVAILABLE, AND NO BASIS IS KNOWN
TO EXIST FOR MAKING A REALISTIC ESTIMATE.
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